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ORIGIN AF-04

INFO OCT-01 SS-14 ISO-00 EB-03 NSC-05 NSCE-00 SSO-00 L-01

SP-02 TRSE-00 OMB-01 CIAE-00 DODE-00 AS-01 INR-05

INRE-00 IO-03 /040 R

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DESIRED DISTRIBUTION

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LIMDIS

E.O. 11652: GDS

TAGS: EMIN EINV EFIN CG

SUBJECT:SMTF COPPER PROJECT

HOLD FOR OPENING OF BUSINESS

1. FOLLOWING ARE TALKING POINTS WHICH AMBASSADOR
MAY FIND USEFUL TO DRAW UPON IN DISCUSSING SMTF MOTHBALLING
WITH MOBUTU, BISENGIMANA OR OTHER GOZ OFFICIALS.

-- THE USG DEEPLY REGRETS THAT THE PARTNERS IN THE TENKE-
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FUNGURUME PROJECT HAVE FOUND THAT BECAUSE OF A NUMBER OF

CIRCUMSTANCES, WHICH THEY HAVE DESCRIBED TO YOU IN DETAIL, THEY ARE UNABLE TO PROCEED FURTHER WITH THE PROJECT AT THIS TIME BUT MUST TEMPORARILY SUSPEND WORK PENDING THE ARRANGEMENT OF ADDITIONAL RISK FINANCING AND THE REORGANIZATION OF THE PROJECT'S FINANCIAL STRUCTURE WHICH INCORPORATION OF ADDITIONAL FINANCING WILL REQUIRE.

-- AS YOU KNOW, THE UNITED STATES GOVERNMENT HAS SUPPORTED THIS PROJECT IN A NUMBER OF WAYS, AND CONTINUES TO DO SO.

-- THE EXPORT-IMPORT BANK HAS COMMITTED ITSELF TO PROVIDING \$131 MILLION IN LOANS AND GUARANTEES TO SMTF. EXIMBANK WAS PREPARED TO PROCEED WITH THE SIGNING OF LOAN AND GUARANTEE AGREEMENTS ORIGINALLY SCHEDULED TO TAKE PLACE IN NOVEMBER. IT WOULD BE PREPARED TO SIGN THOSE AGREEMENTS NOW. IN VIEW OF THE PROMISING PROGRESS MADE BY ZAIRE, WORKING WITH THE IMF, TOWARD DEALING WITH THE COUNTRY'S BALANCE OF PAYMENTS SITUATION, EXIMBANK WOULD NOT RULE OUT THE POSSIBILITY OF WAIVING THE CONDITION PRECEDENT TO DISBURSEMENT OF THOSE LOANS WHICH RELATES TO ARREARAGES ON EXISTING LOANS, THUS PERMITTING DISBURSEMENT TO BEGIN PROMPTLY. EXIMBANK RECOGNIZES OF COURSE THAT WITHOUT THE ADDITION OF SUBSTANTIAL AMOUNTS OF NEW CAPITAL TO COVER THE ENORMOUS COST-OVERRUNS THAT HAVE DEVELOPED, THE FINANCING PACKAGE ENVISAGED IN NOVEMBER IS NO LONGER SUFFICIENT TO PERMIT COMPLETION OF THE PROJECT.

-- AS YOU ARE AWARE ALSO, THE BOARD OF DIRECTORS OF THE UNITED STATES OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) HAS AUTHORIZED OPIC TO INSURE LOANS TO THE SMTF PROJECT UP TO A TOTAL OF \$86 MILLION IN PRINCIPAL, PLUS INTEREST, AND OPIC HAS ALREADY SIGNED INSURANCE CONTRACTS WITH PROSPECTIVE LENDERS FOR \$35 MILLION OF THAT AMOUNT. COVERAGE WOULD TAKE EFFECT ONCE LOAN AGREEMENTS ARE SIGNED AND ZAIRE HAS ENTERED INTO A STANDBY LOAN AGREEMENT WITH THE IMF. OPIC ALSO HAS INFORMED THE SMTF PARTNERS OF ITS WILLINGNESS TO CONSIDER AN ADDITIONAL EXPOSURE OF UP TO ABOUT \$25 MILLION IN THE FORM OF INTERIM LOAN GUARANTEES.

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-- RECOGNIZING SMTF'S NEED FOR SUBSTANTIAL ADDITIONAL CAPITAL, AND HAVING LEARNED OF THE SMTF PARTNERS' APPEAL TO THE WORLD BANK, THE DEPARTMENT OF STATE INTERCEDED WITH THE WORLD BANK AT THE HIGHEST LEVEL TO URGE THE BANK'S EXPEDITIOUS ATTENTION TO THE TENKE-FUNGURUME PROJECT'S FINANCING NEEDS. BOTH SECRETARY KISSINGER AND DEPUTY SECRETARY INGERSOLL DISCUSSED THE QUESTION WITH

MR. MCNAMARA.

-- TO ITS GREAT CREDIT, THE WORLD BANK TACKLED THE PROBLEM ON A CRASH BASIS AND IN BARELY A MONTH DREW UP A FINANCING PROPOSAL. THE PROPOSAL, HOWEVER, WOULD HAVE PLACED ON THE SMTF PARTNERS AN ADDITIONAL RISK BURDEN FAR GREATER THAN THEY ARE WILLING TO BEAR. REGRETFULLY, THE BANK AND THE SMTF PARTNERS HAVE BEEN UNABLE SO FAR TO

FIND GROUND FOR AGREEMENT. WE ARE ENCOURAGED, HOWEVER, BY THE PARTNERS' FIRM DETERMINATION TO CONTINUE THEIR EFFORTS TO COMPLETE THE PROJECT'S FINANCING AND TO RESUME WORK AS SOON AS POSSIBLE.

-- AS YOU KNOW THE EXPORT-IMPORT BANK HAS MADE OR GUARANTEED LOANS TOTALLING \$255 MILLION FOR THE DEVELOPMENT OF INGA POWER AND FOR THE INGA-SHABA POWER TRANS-

MISSION LINE, WHICH WOULD CARRY POWER TO BOTH TENKE-FUNGURUME AND GECAMINES. EXIMBANK IS NOW CONSIDERING AN APPLICATION FROM SNEL FOR ADDITIONAL FINANCING FOR LARGE-SCALE COST OVERRUNS EXPERIENCED ON THE LINE. THE DECISION OF THE SMTF PARTNERS HAS NOT LESSENED EXIMBANK'S DETERMINATION TO SEEK WITH THE GOVERNMENT OF ZAIRE MEANS TO ASSURE THAT THE COST OVERRUN REQUIREMENTS ARE MET, ON TERMS ACCEPTABLE TO BOTH LENDER AND BORROWER, AND THAT WORK ON THE LINE IS COMPLETED. LETTER FROM EXIMBANK TO SNEL, THE BANK OF ZAIRE, AND THE MINISTRY OF FINANCE, CONCERNING THE QUESTION OF INGA-SHABA COST OVERRUNS WILL BE DELIVERED SHORTLY.

FYI ONLY. EXIM RECOGNIZES THAT PAYOFF OF LINE FINANCING WITHOUT SMTF REVENUES WILL REQUIRE CONSIDERABLY HIGHER
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ELECTRICITY RATE FOR GECAMINES. HOWEVER, GIVEN FACT THAT SMTF WAS SCHEDULED TO ACCOUNT FOR ONLY 22 OF LINE'S USE, EXIM BELIEVES POWER COULD STILL BE PROVIDED TO GECAMINES ALONE AT BEARABLE RATE. ORIGINAL ROUGH CALCULATION SUGGESTS SOMETHING IN RANGE OF 30-40 MILLS. KISSINGER

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BUSINESSMEN, AGREEMENTS, COPPER, BANK LOANS, PROGRAMS (PROJECTS)
Control Number: n/a
Copy: SINGLE
Draft Date: 17 JAN 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE011932
Document Source: CORE
Document Unique ID: 00
Drafter: RRSTRAND:CD
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760018-0077
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760147/aaaabpgz.tel
Line Count: 159
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN AF
Original Classification: SECRET
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 06 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06 JUL 2004 by ShawDG>; APPROVED <07 JUL 2004 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MTF COPPER PROJECT HOLD FOR OPENING OF BUSINESS
TAGS: EMIN, EINV, EFIN, CG
To: KINSHASA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006